

DEPARTMENT OF MENTAL HEALTH
MAJOR BUDGET ADJUSTMENTS
AS INCLUDED IN THE 2004-05 GOVERNOR'S BUDGET

The proposed Fiscal Year 2004-05 budget for the Department of Mental Health (DMH), from all funding sources, as included in the 2004-05 Governor's Budget is \$2,543,155,000. Excluding Capital Outlay funding results in an increase of 7.0 percent in total expenditures for Fiscal Year 2004-05. The proposed General Fund budget for Fiscal Year 2004-05, excluding Capital Outlay, is \$910,658,000, which represents a 3.6 percent increase over the revised mid-year General Fund budget for Fiscal Year 2003-04.

The overall increase (3.6 percent) in the Department's General Fund budget is the net result of two significant adjustments in the state hospitals. These include: (1) an increase for employee compensation adjustments approved in both Fiscal Year 2002-03 and Fiscal Year 2003-04 and (2) the continuing activation of Coalinga State Hospital. Fiscal Year 2004-05 represents the most costly year to date with regard to Coalinga State Hospital as the facility will be opened in August 2005.

Major budget adjustments in the Fiscal Year 2004-05 Governor's Budget include the following:

LOCAL ASSISTANCE

- The 2004-05 Governor's Budget proposes the following General Fund reductions in local assistance: (1) elimination of the Children's System of Care Program (\$20,000,000); (2) a reduction of \$5,000,000 (Prop 98) in funding for the Early Mental Health Initiative; (3) elimination of the Institutions for Mental Disease Transition Projects (\$650,000); (4) elimination of funding for Sacramento County's Psychiatric Health Facility (\$416,000); and (5) elimination of funding used by thirteen counties to match federal rehabilitation dollars (\$308,000).
- A net increase in reimbursements of \$244,575,000 from the Department of Health Services (DHS) for the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program. This increase includes a General Fund increase of \$111,649,000 and an increase of \$132,926,000 in Federal Financial Participation (FFP). The proposed increase includes \$317,575,000 for program growth partially offset by a reduction of \$60,000,000 from the rebasing of the statewide maximum allowances and a reduction of \$13,000,000 from additional oversight and auditing of EPSDT services. This latter reduction is included in a Budget Change Proposal discussed in greater detail under Departmental Support.
- An increase in reimbursements of \$95,000,000 from DHS (FFP only) to reflect additional funds to be paid to the counties through the Short-Doyle/Medi-Cal Program. The addition of these funds will bring the Department's local assistance reimbursement authority closer to expected collections.
- A reduction of \$25,000,000 in Short-Doyle/Medi-Cal reimbursements from DHS associated with the rebasing of the statewide maximum allowances. An additional savings of \$60,000,000 (\$40,000,000 General Fund and \$20,000,000 FFP) is also expected in the EPSDT Program as a result of this proposal, as noted above. In addition, this proposal includes a decision by the State to seek federal Medicaid authority to obtain funds up to allowable costs for public providers even when these costs exceed the maximum allowances.

LOCAL ASSISTANCE (Continued)

- A net General Fund increase of \$5,128,000 for the Managed Care Program for both inpatient and specialty mental health services to reflect the following adjustments: (1) changes in the number of Medi-Cal beneficiaries (\$6,224,000); (2) a one percent reduction in growth for managed care inpatient services (-\$53,000); (3) a net reduction of \$1,031,000 to reflect elimination of one-time costs associated with the new federal regulations and (4) a reduction of \$12,000 for a decrease in the number of eligibles in the Breast and Cervical Cancer Treatment Program. The General Fund changes result in an increase of \$5,128,000 in reimbursements from DHS reflected in the Department's local assistance appropriation.
- An increase of \$3,278,000 in reimbursements from DHS to reflect adjustments to the funding level for the San Mateo Pharmacy and Laboratory Services Field Test. The full amount of the increase is attributed to pharmacy costs with laboratory costs remaining unchanged from the funding level included in the Budget Act of 2003.
- An increase in reimbursements of \$2,965,000 for the Healthy Families Program to reflect (1) a caseload increase (\$2,894,000) and (2) a decrease in the percentage of legal immigrants in the program from 3.2 percent to 3.0 percent which results in the collection of additional FFP (\$71,000).
- An increase in the Federal Trust Fund of \$325,000 to reflect receipt of a three-year grant to implement and evaluate evidence-based practices for serving persons with a dual diagnosis of mental illness and substance abuse.

DEPARTMENTAL SUPPORT

- A General Fund decrease of \$4,476,000 pursuant to Budget Control Section 4.10 of the Budget Act of 2003 which required the Director of Finance to abolish 16,000 positions to achieve \$1,066,000,000 in savings. In departmental support a total of 46.5 positions were abolished for a savings of \$2,468,000. The balance of \$2,008,000 came from various categories of operating expenses, including travel, general expense and contract services.
- A General Fund increase of \$1,118,000 to support an increase in the number of Sexually Violent Predator (SVP) evaluations to be performed in the budget year, as well as additional costs for evaluators to provide court testimony. This increase is offset by a General Fund reduction of \$2,000,000 associated with proposed statutory changes that will require the transfer of 100 pre-commitment SVPs from the state hospitals back to local jurisdictions pending the final adjudication of their SVP commitment.
- An increase of \$5,000,000 (\$1,250,000 General Fund and \$3,750,000 in reimbursements from DHS) to reflect full year costs for the external quality reviews required by new federal regulations governing the operation of the Medi-Cal Managed Care Program. This increase was a baseline adjustment based on approval of a Budget Change Proposal for Fiscal Year 2003-04.

DEPARTMENTAL SUPPORT (Continued)

- An increase of \$1,880,000 (\$470,000 General Fund and \$1,410,000 in reimbursements from DHS) to pay for costs associated with the proposed settlement of the preadmission screening and resident review (PASRR) portion of the Davis lawsuit. This funding will primarily be used to support information technology activities associated with updating the current instrument used to evaluate persons residing in or entering into skilled nursing facilities. That instrument allows for a determination as to the appropriateness of the skilled nursing placement and the level of mental health services that should be provided when determined to be necessary.
- An increase of \$1,688,000 (\$844,000 General Fund and \$844,000 in reimbursements from DHS) to support contractual assistance for additional review and oversight of EPSDT expenditures. This effort is expected to further slow program growth and result in the recoupment of \$13,000,000 annually (\$6,500,000 General Fund). This savings is also discussed under local assistance on Page 1 of this document.
- An increase of \$472,000 (\$236,000 General Fund and \$236,000 in reimbursements from DHS) and 2.0 positions (1.9 PYs) (two-year limited term) to implement the Department's portion of a collaborative effort with DHS to explore options to increase state flexibility regarding federal requirements for the EPSDT specialty mental health benefit.
- A General Fund increase of \$246,000 and 3.0 positions (2.8 PYs) to absorb the workload required to successfully implement and maintain Health Insurance Portability and Accountability Act (HIPAA) regulation standards primarily in the state hospitals and inpatient psychiatric programs.
- An increase in the Federal Trust Fund of \$100,000 to reflect receipt of a two-year grant to enhance state level capacity for a coordinated response to mental health and substance abuse services needed in the aftermath of a large-scale emergency.

CONDITIONAL RELEASE PROGRAM

- A General Fund increase of \$657,000 for the following Conditional Release Program (CONREP) activities: \$464,000 for an increase in the average annual cost per CONREP patient from \$19,472 to \$21,091; (2) \$105,000 for an increase in the CONREP caseload of five patients full year; and (3) \$88,000 for an increase in the number of state hospital liaison visits.

LONG TERM CARE SERVICES

- A General Fund increase of \$24,851,000 for the continuing activation of Coalinga State Hospital. This Budget Change Proposal contains several issues related to Coalinga State Hospital, as well as two issues for Atascadero State Hospital and one issue for Patton State Hospital, each of which is discussed below in more detail. Coalinga State Hospital is scheduled to open in August 2005. As a result, Fiscal Year 2004-05 reflects the largest increase in hospital staffing and operating expense costs requested to date.
- A General Fund increase of \$2,446,000 to support 40.3 non level-of-care positions (38.3 PYs), effective December 2004, for Phase IV activation.

LONG TERM CARE SERVICES (Continued)

- A General Fund increase of \$3,019,000 to support 55.7 non level-of-care positions (52.9 PYs), effective May 2005, for Phase V activation.
- A General Fund increase of \$3,259,000 to support 50.1 level-of-care positions (47.6 PYs), effective June 2005 for Phase V activation.
- A General Fund increase of \$3,158,000 to support additional hiring above minimums and recruitment and retention costs to aid Coalinga State Hospital in hiring the number of staff that will be needed when the facility opens in August 2005.
- A General Fund increase of \$12,200,000 for operating expense and equipment costs. Of this amount \$5,598,000 is one-time only.
- A General Fund increase of \$689,000 to support 14.5 non level-of-care positions (13.8 PYs) at Atascadero State Hospital to accommodate the overbedding that will occur until Coalinga State Hospital is opened. When Coalinga is opened these positions will be transferred to that facility.
- A General Fund increase of \$903,000 to support 15.0 non level-of-care positions (14.2 PYs) at Patton State Hospital to accommodate the overbedding that will occur until Coalinga State Hospital is opened. When Coalinga is opened these positions will be transferred to that facility.
- A General Fund reduction of \$823,000 and 11.0 positions (2.0 non level-of-care and 9.0 level-of-care) (10.4 PYs) to reflect the restructuring of the supervision and treatment services provided to SVP patients in the state hospitals.
- A net decrease of \$6,804,000 (a General Fund decrease of \$4,725,000, a decrease of \$4,089,000 in realignment reimbursements and an increase of \$2,010,000 in reimbursements from the California Department of Corrections (CDC) to reflect population changes in the state hospitals and an augmentation for operating and expense costs. The population changes result in a net decrease of 96 beds. The individual adjustments include:
 - A reduction of 100 beds for SVP patients for a full year General Fund savings of \$10,700,00 in level-of-care staffing, operating expense costs and overhead. This adjustment results in a decrease of 102.8 positions (97.7 PYs) at Atascadero State Hospital. This savings is the result of an effort to implement statutory changes that will require the transfer of 100 pre-commitment SVPs from the state hospitals back to local jurisdictions pending the final adjudication of their SVP commitment. Also results in an increase of \$3,108,000 in realignment reimbursements for the shift in overhead costs.
 - An increase of 95 beds for JC/PC patients at a half-year General Fund cost of \$5,082,000 for level-of-care staffing, operating expense costs and overhead. This adjustment results in an increase of 37.7 positions (35.8 PYs) in the state hospitals (half-year). Also results in a reduction of \$2,324,000 in realignment reimbursements for the shift in overhead costs.

LONG TERM CARE SERVICES (Continued)

- A reduction of 60 LPS patients (full-year) at Metropolitan State Hospitals for a savings of \$6,420,000 in realignment reimbursements. This adjustment results in the reduction of 60.2 positions (57.2 PYs). Also result in a General Fund increase of \$1,773,000 for the shift in overhead costs.
- A General Fund reduction of \$3,745,000 to reflect the reduction of 14 NGI beds(full year) and 42 NGI beds (half-year) as the result of proposed statutory changes that would cap the state hospital NGI population at 1,198, effective January 1, 2004. This results in a reduction of 35.7 positions (33.9 PYs) at Patton State Hospital. Also results in an increase of \$960,000 in realignment reimbursements for the shift in overhead costs.
- An increase of \$3,452,000 (\$2,865,000 General Fund and \$587,000 in realignment reimbursements) for patient driven operating expenses in the state hospitals. These patient driven operating expenses include food, chemicals, drugs and laboratory supplies and outside medical costs.
- An increase of \$2,010,000 in reimbursements from the California Department of Corrections (CDC) to support an additional 25 beds at Atascadero State Hospital for CDC inmates transferred to the Department of Mental Health pursuant to Penal Code Section 2964. This results in an increase of 27.7 positions (26.3 PYs).
- A General Fund increase of \$6,766,000 for base rental, trustee and other fees (\$6,650,000) and insurance costs (\$116,000) associated with the funding of major capital outlay projects through the sale of bonds.
- A reduction of \$248,000 in funding from the California State Lottery Fund to reflect a decrease in average daily attendance.

CAPITAL OUTLAY

- A General Fund increase of \$259,000 for the working drawings phase of a project to renovate all of the existing satellite kitchens at Metropolitan State Hospital. This project was originally included in the Budget Act of 2003 with funding coming from the Public Building Construction Fund. Subsequent discussions have resulted in the determination that bond funding would not be appropriate for this project.
- A General Fund increase of \$170,000 to complete a minor capital outlay project at Atascadero State Hospital that will establish a higher level of facility security. Included will be the installation of an armor plated, steel framed wall with bulletproof viewing windows at the police reception area; the installation of two electronically controlled access doors at both ends of the administrative wing of the hospital; installation of a high security steel door, accessed by identification card activation, in the Health Information Management Section; and the addition of color video cameras at all access points which will be monitored in the police reception area.

REALIGNMENT

- For Fiscal Year 2004-05 it is estimated that a total of \$1,128,258,000 will be available for mental health services. This is a reduction of \$3,050,000 (0.3 percent) from the amount anticipated for Fiscal Year 2003-04. This amount does not include the estimated \$14,000,000 which may be made available from the Vehicle License Collection Account. The total of \$1,128,258,000 in realignment funding will come from the following sources:

• Sales Tax	\$834,609,000
(deposited in the Mental Health Subaccount)	
• Sales Tax Growth Account	-0-
(General Growth Subaccount)	(-0-)
(Mental Health Equity Subaccount)	(-0-)
(State Hospital Mental Health Equity Subaccount)	(-0-)
• Vehicle License Fee Account	\$279,108,000
• Vehicle License Fee Growth Account	\$14,541,000

DEPARTMENT OF MENTAL HEALTH
SUMMARY OF APPROPRIATION TOTALS
FOR FISCAL YEAR 2004-05 AS REFLECTED
IN THE 2004-05 GOVERNOR'S BUDGET
BY PROGRAM AND FUNDING SOURCE

(Dollars in Thousands)

TOTAL	\$2,543,155
General Fund	891,979
General Fund (Prop 98)	8,400
General Fund (Capital Outlay)	429
General Fund (Lease Revenue Payments)	10,279
Lottery Education Fund	1,397
Traumatic Brain Injury Fund	1,422
Federal Trust Fund	61,917
Reimbursements	1,481,762
Reimbursements (realignment/patient generated)	85,570
DEPARTMENTAL SUPPORT <u>1/</u>	\$53,509
General Fund	29,519
Traumatic Brain Injury Fund	203
Federal Trust Fund	3,401
Reimbursements	20,386
STATE HOSPITALS	\$702,350
General Fund	547,651
General Fund (Prop 98)	3,400
General Fund (Lease Revenue Payments)	10,279
Lottery Education Fund	1,397
Reimbursements	54,053
Reimbursements (realignment/patient generated)	85,570
CONDITIONAL RELEASE PROGRAM	\$21,199
General Fund	21,199
LOCAL ASSISTANCE <u>2/</u>	\$1,765,661
General Fund	293,603
General Fund (Prop 98)	5,000
Traumatic Brain Injury Fund	1,219
Federal Trust Fund	58,516
Reimbursements	1,407,323
STATE MANDATED LOCAL PROGRAMS	\$7
General Fund	7
CAPITAL OUTLAY	\$429
General Fund (Capital Outlay)	429

1/ Includes funding for the Health Insurance Portability and Accountability Act.

2/ Includes the Traumatic Brain Injury Program, Brain Damaged Adults Program, Early Mental Health Initiative and funding for mental health managed care.

DEPARTMENT OF MENTAL HEALTH
LOCAL ASSISTANCE FUNDING DETAIL
FOR FISCAL YEAR 2004-05 AS REFLECTED
IN THE 2004-05 GOVERNOR'S BUDGET

(Dollars in Thousands)

<u>Local Assistance Funding</u>	\$1,765,661
General Fund	\$293,603
General Fund (Prop 98)	5,000
Traumatic Brain Injury Fund	1,219
Federal Trust Fund	58,516
Reimbursements	1,407,323
<u>General Fund</u>	\$293,603
• Mental Health Managed Care	\$222,904
• Integrated Services for the Homeless	54,850
• Brain Damaged Adults Program	11,747
• AIDS	1,500
• Community Services – Other Treatment	1,304
• Community Treatment Facilities	1,200
• Healthy Families	98
<u>General Fund (Prop 98)</u>	\$5,000
• Early Mental Health Initiative	\$5,000
<u>Traumatic Brain Injury Project</u>	\$1,219
• Traumatic Brain Injury Project	\$1,219
<u>Federal Trust Fund</u>	\$58,516
• Community Services – Other Treatment (SAMHSA)	\$52,596
• Homeless Mentally Disabled (PATH)	5,595
• Dual Diagnosis Tool-Kit Grant	325
<u>Reimbursements</u>	\$1,407,323
• Early and Periodic Screening Diagnosis and Treatment (EPSDT) Program	\$787,614
• Short-Doyle/Medi-Cal/Mental Health Managed Care	602,521
• Healthy Families	16,710
• Traumatic Brain Injury Cooperative Program	232
• Title IV-E Training	226
• Olmstead Planning Grant	20